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4                   **TESTIMONY OF JACQUELINE R. CHERRY**  
5                   **FOR**  
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7                   **THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA**  
8  
9                   **DOCKET NO. 2001-2-E**  
10  
11                  **IN RE: SOUTH CAROLINA ELECTRIC & GAS COMPANY**  
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14   **Q.   PLEASE STATE FOR THE RECORD YOUR NAME, BUSINESS ADDRESS**  
15       **AND POSITION WITH THE PUBLIC SERVICE COMMISSION OF SOUTH**  
16       **CAROLINA?**

17   **A.   My name is Jacqueline R. Cherry. My business address is 101 Executive**  
18       Center Drive, Columbia, South Carolina. I am employed by the Public  
19       Service Commission of South Carolina, Audit Department, as an auditor.

20   **Q.   PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND**  
21       **EXPERIENCE.**

22   **A.   I received a B. S. Degree in Business Administration, with a major in**  
23       Accounting from Johnson C. Smith University in 1976. I was employed by  
24       this Commission in February 1979, and have participated in cases involving  
25       gas, electric, telephone, water and wastewater utilities.

26   **Q.   WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
27       **PROCEEDING?**

28   **A.   The purpose of my testimony is to summarize the results of the Audit Staff's**  
29       examination of South Carolina Electric & Gas Company's Fuel Adjustment  
30       Clause operation for the period March 2000 through April 2001. The findings

1 of the examination are contained in the Audit Department's section of the  
2 Commission Staff Report.

3 **Q. WHAT WAS THE SCOPE OF YOUR AUDIT?**

4 **A.** The Audit Department Staff traced the information as filed in the Company's  
5 required monthly filing, to the Company's books and records. The current  
6 examination covered the period March 2000 through April 2001. However,  
7 since this current hearing was scheduled for April 2001, Staff's audit work  
8 did not include any testing for the months of March and April 2001. The  
9 purpose of the audit was to determine if South Carolina Electric & Gas  
10 Company had computed and applied the monthly Fuel Adjustment Clause in  
11 accordance with the approved clause. To accomplish this, Staff examined  
12 the components surrounding the operation of the clause.

13 **Q. WHAT WERE THE STEPS THAT THE STAFF EMPLOYED WITHIN THE**  
14 **SCOPE OF THE AUDIT?**

15 **A.** The examination consisted of the following:

- 16 1. Analysis of Account # 151 – Fuel Stock
- 17 2. Sample of Receipts to the Fuel Stock Account – Account # 151
- 18 3. Verification of Charges to Nuclear Fuel Expense, Account # 518
- 19 4. Verification of Purchased Power & Interchange
- 20 5. Verification of KWH Sales
- 21 6. Analysis of Spot Coal Purchasing Procedures
- 22 7. Review of the CSX Transportation Settlement Agreement
- 23 8. Recomputation of Fuel Adjustment Factor and Verification of  
24 Deferred Fuel Costs
- 25 9. Recomputation of True-up for the (Over)Under-Recovered Fuel  
26 Costs
- 27 10. Details of Fuel Costs

28 **Q. MRS. CHERRY, WOULD YOU PLEASE EXPLAIN THE REVIEW OF THE**  
29 **CSX TRANSPORTATION SETTLEMENT AGREEMENT?**

1   **A.**   PSC Order No. 98-209, Docket No. 98-115-E, dated March 19, 1998,  
2       granted South Carolina Electric & Gas Company's (SCE&G or the Company)  
3       request for a Commission accounting order, which would give SCE&G  
4       authorization to defer and to amortize a one-time payment incurred by the  
5       Company as the result of a Settlement Agreement, dated January 28, 1998,  
6       between SCE&G and CSX Transportation, Inc. CSX Transportation is one  
7       of the railroads that delivers coal to the Company's steam production  
8       facilities. The agreement calls for the Company to make a one-time payment  
9       to the railroad. In return, the Company has received reductions in coal  
10      freight rates, decreased minimum tonnage requirements and certain other  
11      favorable financial and operating concessions that provide savings  
12      substantially in excess of the one-time payment, according to SCE&G. By  
13      agreement of the parties and Order of the U.S. District Court, the specific  
14      terms of the agreement are confidential.

15      The Company proposed that it be allowed to defer the one-time payment by  
16      charging Account No. 182.3 – Other Regulatory Assets. The balance in  
17      Account No. 182.3 would be amortized monthly to Account No. 501 – Fuel  
18      Expense in an amount equal to the savings realized through deliveries of  
19      coal at the reduced freight rates. It is expected that this balance would be  
20      written off in approximately three years, after which time the reductions in  
21      freight rates would serve to reduce ongoing fuel costs. Meanwhile,  
22      according to the Company, the savings derived from other provisions of the  
23      agreement, such as those resulting from decreased minimum tonnage  
24      requirements, will be immediately reflected in lower fuel costs, and thereby  
25      provide benefits to customers currently.

26      During this audit review period of the Company's fuel adjustment clause,  
27      March 2000 through February 2001, Staff reviewed the freight savings, and  
28      thereby, the amortized amounts, by comparing the original CSX  
29      Transportation contract freight rates to the revised Settlement Agreement

1 freight rates. Staff applied the difference between the rates to the applicable  
2 railroad coal tonnage deliveries. The amortized and final amount (freight  
3 savings) booked as of February 2001 totaled \$58,984.

4 **Q. WITH REGARD TO THE TRUE-UP OF (OVER)UNDER-RECOVERED**  
5 **FUEL COSTS, WOULD YOU PLEASE ELABORATE ON STAFF'S**  
6 **COMPUTATION?**

7 **A.** Staff analyzed the cumulative under-recovery of fuel costs that the Company  
8 had incurred for the period March 2000 through February 2001 which totaled  
9 \$60,454,498. Staff added the projected under-recovery of \$1,215,810 for the  
10 month of March 2001 and the projected "break-even" recovery of \$-0- for  
11 April 2001 to arrive at a cumulative under-recovery of \$61,670,308. The  
12 Company's cumulative under-recovery as of April 2001, per its testimony in  
13 Docket No. 2001-2-E, totals \$61,610,678. The difference between the  
14 Company's and the Staff's cumulative under-recovery balances as of actual  
15 February 2001 and as of estimated April 2001 totals \$59,630. This difference  
16 is based on various corrections Staff reflected in various Company fuel  
17 costs, such as Fossil Fuel Burned Costs, Nuclear Fuel Costs, Purchase and  
18 Interchange Power Fuel Costs, and Intersystem Sales for several months of  
19 the review period (per Staff's report). Staff's Exhibit G, Computation of  
20 Unbilled Revenue, which consists of two pages, provides detailed  
21 explanations for this cumulative under-recovery difference of \$59,630. It  
22 should be noted that the Company will true-up the cumulative difference of  
23 \$59,630, on a per books basis, by the next fuel review period. As stated in  
24 South Carolina Electric & Gas Company's Adjustment for Fuel Costs, fuel  
25 costs will be included in base rates to the extent determined reasonable and  
26 proper by the Commission. Accordingly, the Commission should consider  
27 the under-recovery of \$61,670,308 along with the anticipated fuel costs for  
28 the period May 1, 2001 to April 30, 2002, for the purpose of determining the  
29 base cost of fuel in base rates effective May 1, 2001. This \$61,670,308

under-recovery figure was provided to the Commission's Utilities Department.

**Q. MRS. CHERRY, WOULD YOU PLEASE DESCRIBE THE REMAINING STAFF EXHIBITS?**

**A.** Staff prepared exhibits from South Carolina Electric & Gas Company's books and records reflecting fuel costs during the review period.

Specifically, these exhibits are as follows:

Exhibit A: Total Received & Weighted Average Cost

Exhibit B: Received Coal-Cost Per Ton (Per Plant)

Exhibit C: Received Coal-Cost Per Ton Comparison

Exhibit D: Burned Cost-Consumed Generation

Exhibit E: Cost of Fuel

Exhibit F: Factor Computation

Exhibit G: Computation of Unbilled Revenue

**Q. MRS. CHERRY, WHAT WERE THE RESULTS OF THE AUDIT DEPARTMENT'S REVIEW?**

**A.** Based on the Audit Staff's examination of South Carolina Electric & Gas Company's books and records, and the utilization of the fuel cost recovery mechanism as directed by the Commission, the Audit Department is of the opinion that the Company has complied with the directives (per the Fuel Adjustment Clause) of the Commission.

**Q. MRS. CHERRY, DOES THIS CONCLUDE YOUR TESTIMONY?**

**A.** Yes, it does.